

# EXHIBIT 20

**UNITED STATES OF AMERICA**  
**Before the**  
**COMMODITY FUTURES TRADING COMMISSION**

**RECEIVED CFTC**



Office of Proceedings  
 Proceedings Clerk

**8:00 am, Dec 19, 2012**

In the Matter of: )

UBS AG and UBS Securities Japan )  
 Co., Ltd., )

Respondents. )

CFTC Docket No. 13-09\_

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO**  
**SECTIONS 6(c) AND 6(d) OF THE COMMODITY EXCHANGE ACT**  
**MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS**

**I.**

The Commodity Futures Trading Commission (the “Commission” or the “CFTC”) has reason to believe that UBS AG and UBS Securities Japan Co., Ltd. (collectively, “Respondents” or “UBS”) have violated Sections 6(c), 6(d) and 9(a)(2) of the Commodity Exchange Act (the “Act” or the “CEA”), 7 U.S.C. §§ 9, 13b and 13(a)(2) (2006). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondents engaged in the violations set forth herein, and to determine whether any order shall be issued imposing remedial sanctions.

**II.**

In anticipation of the institution of an administrative proceeding, Respondents have submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Without admitting or denying the findings or conclusions herein, except to the extent Respondents admit those findings in any related action against UBS by, or any agreement with, the Department of Justice or any other governmental agency or office, Respondents herein consent to the entry and acknowledge service of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act Making Findings and Imposing Remedial Sanctions (“Order”).<sup>1</sup>

<sup>1</sup> Respondents consent to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Respondents do not consent to the use of the Offer, or the findings or conclusions in this Order, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order or where Respondents have admitted findings as set forth above. Nor do Respondents consent to the use of the Offer or this Order, or the findings in this Order consented to in the Offer, by any other party in any other proceeding.

### III.

The Commission finds the following:

#### A. Summary

For more than six years, since at least January 2005, UBS, by and through the acts of dozens of employees, officers and agents located around the world, engaged in systemic misconduct that undermined the integrity of certain global benchmark interest rates, including, but not limited to, the London Interbank Offered Rate ("LIBOR") for certain currencies, the Euro Interbank Offered Rate ("Euribor") and the Euroyen Tokyo Interbank Offered Rate ("Euroyen TIBOR"), that are critical to international financial markets.

UBS engaged in two overarching courses of misconduct. *First*, from at least January 2005 to at least June 2010, UBS made knowingly false submissions to rate-fixing panels to benefit its derivatives trading positions or the derivatives trading positions of other banks in attempts to manipulate Yen, Swiss Franc, Sterling and Euro LIBOR and Euribor, and, periodically, Euroyen TIBOR. UBS, through certain derivatives traders, also colluded with traders at other banks and coordinated with interdealer brokers in its attempts to manipulate Yen LIBOR and Euroyen TIBOR. For certain currencies and benchmark interest rates, this conduct occurred on a regular basis and sometimes daily. UBS was, at times, successful in its attempts to manipulate Yen LIBOR.

*Second*, from approximately August 2007 to mid-2009, UBS, at times, used false benchmark interest rate submissions, including U.S. Dollar LIBOR, to protect itself against media speculation concerning its financial stability during the financial crisis.

#### *Manipulative Conduct for Profit*

Throughout the period, UBS routinely skewed its submissions to interest rate-fixing panels for Yen, Swiss Franc, Sterling and Euro LIBOR and Euribor and, at times, Euroyen TIBOR, to benefit UBS's derivatives trading positions that were tied to those particular benchmarks. UBS used a flawed submission process that relied on inherently conflicted employees to make submissions. UBS made derivatives traders responsible not only for trading their derivatives books for a profit, but also for determining UBS's benchmark interest rate submissions. As a result, when determining the rates to submit to the official panels, UBS's submitters for these currencies and benchmarks often took into consideration how the submissions might benefit their trading positions. These UBS submitters also accommodated requests of other UBS derivatives traders for submissions that would be beneficial to their trading positions, by either maximizing their profits or minimizing their losses. (see pp. 10-37 for Yen LIBOR and Euroyen TIBOR, p. 38 for Swiss Franc LIBOR, pp. 38-39 for Sterling LIBOR, and pp. 39-41 for Euro LIBOR and Euribor, *infra*.)

This profit-driven conduct spanned from at least January 2005 through June 2010 and, at times, occurred on an almost daily basis. It involved more than three dozen traders and submitters located in multiple offices, from London to Zurich to Tokyo, and elsewhere. The

misconduct included several UBS managers, who made requests to benefit their trading positions, facilitated the requests of their staff for submissions that benefited their trading positions, or knew that this was a routine practice of the traders and did nothing to stop it. UBS traders inappropriately viewed their benchmark interest rate submissions, such as UBS's LIBOR submissions, as mere tools to help the traders increase the profits or minimize losses on their trading positions. To be sure, UBS's benchmark interest rate submissions frequently were not a reflection of UBS's assessment of the costs of borrowing funds in the relevant interbank markets, as each of the benchmark definitions required.

In this environment, UBS, primarily through the acts and direction of a senior Yen derivatives trader, orchestrated a massive, multi-year course of unlawful conduct to manipulate Yen LIBOR on, at times, an almost daily basis and, periodically, Euroyen TIBOR. This senior Yen trader, known as one of the largest traders in the entire Yen market, took on significant, high-risk derivatives trading positions that generated hundreds of millions of dollars for UBS. He implemented at least three manipulative strategies, which he often used simultaneously to increase the likelihood that he would be successful: (i) he had UBS Yen LIBOR and Euroyen TIBOR submitters make submissions for particular maturities ("tenors") reflecting his preferred rates (see pp. 12-17, *infra.*); (ii) he cultivated prior working relationships and friendships with derivatives traders from at least four other banks and had them make requests of their Yen LIBOR submitters based on his preferred rates (see pp. 17-20, *infra.*); and (iii) he used at least five interdealer brokers, who intermediated cash and derivatives transactions for clients, including other banks that made benchmark interest rate submissions, to disseminate false market information relating to Yen LIBOR to multiple panel banks in order to impact their submissions to his benefit. (see pp. 20-29, *infra.*)

The UBS senior Yen trader had the interdealer brokers utilize various methods to try to affect the submissions of other banks, including: (i) disseminating false "run-throughs" of suggested Yen LIBOR to many, if not all, of the panel banks (see pp. 22-24, *infra.*); (ii) contacting directly other bank submitters (see pp. 24-26, *infra.*); (iii) publishing false market cash rates over certain dedicated electronic screens available to clients (see p. 26, *infra.*); and (iv) "spoofing" or making fake bids and offers, all tailored to drive the submissions of the other banks to the rates that benefited the senior Yen trader's derivatives positions. (see pp. 26-27, *infra.*) To secure the cooperation of the brokers and, at times, other derivatives traders, the senior Yen trader found ways to compensate them, including by executing additional trades or wash trades to generate commissions for the brokers and by negotiating an extra UBS-paid fee or bonus to one interdealer broker, totaling about \$216,000 over an approximately two-year period.

UBS, through the senior Yen trader and others, made approximately 2,000 written internal and external requests in attempts to manipulate Yen LIBOR in just a three-year period, accounting for 75% of the days in which Yen LIBOR submissions were made by UBS during that period.<sup>2</sup> Sometimes, the senior Yen trader sought to manipulate particular tenors on one

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<sup>2</sup> For purposes of this Order, the term "request" means a request for a preferential submission for a particular tenor. For example, if a UBS derivatives trader asked a UBS submitter that preferential rates be submitted for three tenors, then the Commission views that as constituting three separate requests made on that particular day.

day, and sometimes he looked ahead and conducted sustained manipulative operations for weeks to move Yen LIBOR in the direction he needed, even coining names for these longer-term schemes, such as “the Turn Campaign” and “Operation 6m.” (see pp. 29-36 *infra*). At times, UBS was successful in its attempts to manipulate Yen LIBOR for certain tenors.

UBS, through certain Yen traders, continued to use these strategies to attempt to manipulate Yen LIBOR and Euroyen TIBOR, even after the senior Yen trader departed UBS in late 2009, as UBS managed the massive trading positions he had accumulated for the firm.

#### *False Reports to Protect Reputation*

During the financial crisis, certain UBS managers issued directions for making UBS benchmark interest rate submissions in order to protect against what UBS perceived as unfair and inaccurate negative public and media perceptions about UBS. UBS first directed that UBS’s submissions should “err on the low side” of the panel banks’ submissions, a direction its submitters generally followed. UBS subsequently directed that UBS’s submissions be “in the middle of the pack” of the panel banks’ submissions, and the submitters followed the direction again. These directions at times improperly influenced submissions for U.S. Dollar LIBOR, as well as LIBORs for other currencies, and Euribor and Euroyen TIBOR, and at times resulted in submissions that did not solely reflect UBS’s assessment of the borrowing costs of unsecured funds in the relevant interbank markets, as required. At times, these directions resulted in UBS knowingly making false, misleading or knowingly inaccurate LIBOR, Euribor and Euroyen TIBOR submissions from early August 2007 to at least mid-2009. (see pp. 41-52, *infra*.)<sup>3</sup>

A bank’s concerns about its reputation, negative market or press reports, or its trading positions and related profits are not legitimate or permissible factors upon which a bank may base its daily benchmark interest rate submissions. Benchmark interest rate submissions convey market information about the costs of borrowing unsecured funds in particular currencies and tenors, the liquidity conditions and stress in the money markets and a bank’s, such as UBS’s ability to borrow funds in the particular markets. By basing its submissions, in whole or in part, on UBS’s trading positions and at times its reputational concerns, UBS knowingly conveyed false, misleading or knowingly inaccurate reports that its submitted rates for LIBOR, Euribor, and Euroyen TIBOR were based on and solely reflected the costs of borrowing unsecured funds in the relevant interbank markets and were truthful and reliable. Thus, UBS’s false submissions contained market information that affected or tended to affect LIBOR, Euribor and Euroyen TIBOR, commodities in interstate commerce.

#### *The Conduct Continued After UBS Was on Notice of the CFTC Investigation*

UBS continued to engage in all of the conduct described above, particularly the trader manipulative conduct, long after it was on notice that the CFTC was investigating UBS in connection with its U.S. Dollar LIBOR practices. UBS received a demand for documents and

<sup>3</sup> These directions to be “in the middle of the pack,” by definition, resulted in UBS’s submissions at times being part of the calculation of the official published LIBOR. However, the Commission has not found evidence that UBS issued or acted upon the directions with the intent to manipulate the official published LIBOR for any currency or other benchmark interest rates.



information from the CFTC's Division of Enforcement in October 2008; yet the conduct of the traders and submitters, including the collusive conduct, occurred well into 2010. The rampant misconduct across benchmarks at UBS only came to light as a result of the CFTC's subsequent request in April 2010 that UBS conduct an internal investigation relating to its U.S. Dollar LIBOR practices.

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Commencing in or about late December 2010, Respondents provided substantial assistance to the Division of Enforcement in its investigation, including information and analysis. In accepting UBS's Offer, the Commission recognizes Respondents' cooperation as of late December 2010.

## **B. Respondents**

**UBS AG** is a Swiss banking and financial services company headquartered in Zurich and Basel, Switzerland that provides investment banking, asset management and wealth management services for private, corporate and institutional clients worldwide. It has operations in over 50 countries, including the United States. The Investment Banking division of UBS is responsible for making submissions for benchmark interest rates.

**UBS Securities Japan Co., Ltd.** is the successor company to UBS Securities Japan, Ltd., which, at all times during the periods covered by this Order, was a wholly-owned subsidiary of UBS AG and engaged in investment banking operations and was a securities broker-dealer. It had a branch office in Tokyo, Japan.

## **C. Facts**

### **1. UBS Made False Reports and Attempted to Manipulate LIBOR and Other Benchmark Interest Rates, at Times Successfully, to Benefit UBS's Derivatives Positions**

From at least January 2005 through at least June 2010, UBS, through the acts of its derivatives traders, benchmark interest rate submitters and managers, made false benchmark interest rate submissions in an effort to manipulate the official fixings of Yen, Swiss Franc, Sterling and Euro LIBOR, Euribor and Euroyen TIBOR. The goal was simple: to profit. UBS held significant derivatives positions whose value depended on benchmark interest rates fixed by rate-setting panels. As more fully described below, the panels fixed and issued the respective benchmarks based on rates submitted by banks on the respective panels, such as UBS, that were supposed to reflect an assessment of the costs of borrowing unsecured funds in the relevant interbank money markets. UBS, however, made false submissions intended to manipulate these benchmarks to make its derivatives positions more profitable or to minimize losses.

Interest rate swaps traders ("Derivatives Traders"), located in UBS's London, Zurich and Tokyo offices, routinely asked their UBS colleagues who determined UBS's submissions to make certain submissions to affect the daily fixings for certain tenors of various LIBOR

currencies, Euribor and, at times, Euroyen TIBOR. The Derivatives Traders' purpose was to benefit their respective derivatives trading positions. The UBS submitters often based their submissions on the traders' requests. Making matters even worse, for most of the period, until approximately September 2009, UBS's submitters wore two "hats" – they were also derivatives traders themselves ("Trader-Submitters") – and they also based UBS's submissions on their own desk's trading positions.

Accordingly, throughout the six-year period, UBS, through its Trader-Submitters and others, made benchmark interest rate submissions as set forth below reflecting rates that benefitted UBS's derivatives trading positions, rather than their assessment of the costs of borrowing funds in the relevant markets. As detailed below, for certain benchmark interest rate submissions, this occurred on an almost daily basis. The conduct of the dozens of Derivatives Traders and Trader-Submitters occurred openly and was pervasive at UBS on certain trading desks, even involving the participation or knowledge of desk managers and senior managers.<sup>4</sup>

**a. The Fixing of BBA LIBOR, EBF Euribor and JBA Euroyen TIBOR**

*LIBOR and its Fixing*

LIBOR is the most widely used benchmark interest rate throughout the world. LIBOR is intended to be a barometer to measure strain in money markets and is often a gauge of the market's expectation of future central bank interest rates. Approximately \$350 trillion of notional swaps and \$10 trillion of loans are indexed to LIBOR. LIBOR also is the basis for settlement of interest rate futures and options contracts on many of the world's major futures and options exchanges, including the one-month and three-month Eurodollar futures contracts on the Chicago Mercantile Exchange ("CME"). Moreover, LIBOR is fundamentally critical to financial markets and has an enormously widespread impact on global markets and consumers.

Daily LIBORs are issued on behalf of the British Bankers' Association ("BBA")<sup>5</sup> for ten currencies, including Yen, Sterling, Euro and Swiss Franc, with fifteen tenors ranging from overnight through twelve months. According to the BBA, LIBOR "is based on offered inter-bank deposit rates contributed in accordance with the Instructions to BBA LIBOR Contributor banks." The BBA requires that:

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<sup>4</sup> The term "Senior Manager" generally references UBS employees with responsibilities (either formally or informally delegated) broader than management of trading desks, although their responsibilities may have at times included managing trading desks. The term "Senior Manager" does not include executive managers or the board of directors of UBS.

<sup>5</sup> The BBA is a United Kingdom trade association for the United Kingdom banking and financial services sector and is comprised of member banks. The BBA is not regulated.

“[a]n individual BBA LIBOR Contributor Panel Bank will contribute the rate at which it could borrow funds, were it to do so by asking for and then accepting inter-bank offers in reasonable market size just prior to [11:00 a.m. London time].”<sup>6</sup>

Every business day shortly before 11:00 a.m. London time, the banks on the LIBOR panels submit their rates to Thomson Reuters. A trimmed averaging process is used to exclude the top and bottom quartile of rates and then average the remaining rates for each currency and tenor. That average rate becomes the official BBA daily LIBOR (the “LIBOR fixing”). The BBA then makes public the daily LIBOR fixing for each currency and tenor, as well as the daily submissions of each panel bank, through Thomson Reuters and the other data vendors licensed by the BBA. This information is made available and relied upon by market participants and others around the world, including in the United States.

#### *Euribor and its Fixing*

Euribor is the predominant money market reference interest rate for the Euro currency and is used internationally in derivatives contracts, including interest rate swaps and futures contracts.<sup>7</sup> At the end of 2011, according to the Bank for International Settlements (“BIS”), over-the-counter interest rate derivatives in the Euro currency, such as swaps and forward rate agreements (“FRAs”), comprised contracts worth over \$220 trillion in notional value. Euribor is fixed every business day for fifteen tenors, ranging from one week to twelve months.

Euribor is defined by the European Banking Federation (“EBF”)<sup>8</sup> as the rate “at which Euro interbank term deposits are offered by one prime bank to another prime bank” within the Economic and Monetary Union of the European Union at 11:00 a.m. Central European Time (“CET”) daily. According to the EBF instructions, panel banks “must quote the required euro rates to the best of their knowledge.” The panel banks are to observe the market and base their submissions on where the Euro is trading in that market.

The daily official fixing of EBF Euribor (“Euribor fixing”) is also calculated based on a trimmed averaging methodology. On behalf of EBF, Thomson Reuters issues the daily Euribor fixing and the submissions of each panel bank to its subscribers and other licensed data vendors. Through these licensing agreements, this information is made available and relied upon by market participants and others around the world, including in the United States.

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<sup>6</sup> This definition of LIBOR has been used by the BBA from 1998 to the present.

<sup>7</sup> In October 2011, the CME launched the Euribor Futures contract, which settles based on the three-month Euribor.

<sup>8</sup> The EBF, an unregulated non-profit association of the European banking sector based in Brussels, Belgium, oversees the publication of Euribor.



*Euroyen TIBOR and its Fixing*

Euroyen TIBOR is used internationally in derivatives contracts, including interest rate swaps and futures contracts on exchanges around the world, including the CME's Euroyen TIBOR futures contract.<sup>9</sup> Yen traded in a money market outside of Japan is referred to as Euroyen. Euroyen TIBOR reflects the prevailing money market rates in the Japan offshore market. At the end of 2011, according to the BIS, over-the-counter interest rate derivatives in the Yen currency, such as swaps and FRAs, comprised contracts worth over \$66 trillion in notional value referenced to Yen rates. Euroyen TIBOR is fixed daily for thirteen tenors.

According to the Japanese Bankers Association's ("JBA") instructions,<sup>10</sup> the contributing panel banks quote rates where they believe a prime bank would transact in the Japan offshore market as of 11:00 a.m. Tokyo time. These quotes should not be representative of the banks' own positions in the marketplace. Further, the rates quoted by reference banks are not intended for use in trading by the reference banks. The daily fixing of JBA Euroyen TIBOR ("Euroyen TIBOR fixing") is also calculated based on the trimmed averaging methodology. Through licensing agreements, this information is made available and relied upon by market participants and others around the world, including in the United States.

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By their definitions, LIBOR, Euribor and Euroyen TIBOR require that the submitting panel banks exercise their judgment to determine the rates at which, depending on the benchmark, they or a prime bank may obtain unsecured funds in the respective London, Euro and Tokyo interbank markets. These definitions require that submissions relate to funding and do not permit consideration of factors unrelated to the costs of borrowing unsecured funds, such as derivatives trading positions or concerns about reputational harm or negative media attention.

**b. UBS Used Derivatives Traders to Make UBS's Submissions**

UBS made Trader-Submitters who worked in UBS's Investment Banking Division responsible for making all benchmark interest rate submissions that are subject to this Order. From at least January 2005 through September 2009, Derivatives Traders, who sat on Short Term Interest Rate ("STIR") trading desks in Zurich and traded short-term derivatives products, made submissions for all LIBOR currencies (except U.S. Dollar and Euro), Euribor and Euroyen TIBOR. The submissions for U.S. Dollar and Euro LIBOR were made by Derivatives Traders who sat on the U.S. Dollar and Euro desks in the London office of the Rates Division ("Rates"). The Rates Division consisted of derivatives traders in London, Zurich, Tokyo, Connecticut and elsewhere, who traded derivatives products with a duration or maturity of more than a year. UBS's Derivatives Traders traded LIBOR, Euribor and Euroyen TIBOR-based swaps, FRAs, and futures contracts. Many of their derivatives contracts settled or reset on International

<sup>9</sup> The CME Euroyen TIBOR futures contract had active trading volumes during the relevant periods discussed *infra*. (see pp. 10-37); at present, it has no trading volume.

<sup>10</sup> JBA is an industry banking association and oversees the publication of Euroyen TIBOR.

Monetary Market (“IMM”) dates, making the benchmark interest rates on these particular dates especially important.<sup>11</sup>

In October 2008, responsibility for U.S. Dollar and Euro LIBOR submissions was transferred from the London Rates desk to the STIR desk in Zurich. The STIR and Rates desks were part of the Global Fixed Income, Currency and Commodities Division (“FICC”).

The STIR and Rates desks were profit centers for UBS and generated significant income for UBS based on trading derivatives products, such as interest rate swaps whose value depended on LIBOR, Euribor, Euroyen TIBOR and other benchmark interest rates. STIR also managed UBS’s short-term cash position and engaged in cash trading in the money markets for each currency, primarily through traders located in Connecticut, Zurich and Singapore. STIR was also responsible for hedging UBS’s interest rate risk.

In September 2009, UBS transferred responsibility for determining all LIBOR submissions to the Asset and Liability Management (“ALM”) group within FICC, located in Zurich. In October 2009, ALM also became responsible for Euribor submissions, and in January 2010, for Euroyen TIBOR submissions. ALM was also responsible for determining the size and price, known as the external issuance levels, at which UBS would issue commercial paper (“CP”) and certificates of deposit (“CDs”) to fund the bank. ALM did not trade derivatives products.

Prior to September 2009, ALM provided input at times into the determination of various benchmark interest rate submissions to the Trader-Submitters and eventually provided the actual rates to be submitted. After ALM assumed such responsibility, UBS Derivatives Traders on occasion still made requests for preferential submissions.

**c. Conflicts of Interest and Lack of Internal Controls Allowed Misconduct to Flourish For Years**

UBS’s dual role of traders acting as submitters created a conflict of interest that compromised the integrity of UBS’s submission process, thus establishing an environment ripe for the Derivatives Traders and Trader-Submitters to abuse. UBS’s Trader-Submitters had an inherent interest in making submissions that benefited their derivatives trading positions. This interest conflicted with UBS’s responsibility to make honest and reliable assessments of the costs of borrowing unsecured funds in the relevant markets, and ensure its benchmark interest rate submissions were made in accordance with the relevant definitions and criteria. Until August 2008 at the earliest, UBS had no specific internal controls or procedures governing its benchmark interest rate submissions to manage the conflicts of interest and ensure that its submissions did not take into account impermissible factors, such as UBS’s derivatives trading positions. UBS provided no training concerning the benchmark interest rate submission process or how to manage the inherent conflict between making such submissions and the fact that the Trader-Submitters were supposed to make money for UBS.

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<sup>11</sup> IMM dates are standard quarterly settlement dates in March, June, September and December.

Even after conducting a limited review and developing some procedures for its submission process in the wake of an April 2008 *Wall Street Journal* (“WSJ”) article critical of the accuracy of banks’ LIBOR submissions, UBS did not remove the inherent conflict of interest described above or provide meaningful guidance or any training to the Trader-Submitters. Rather than strengthening its internal controls and removing the conflict of interest embedded in the submission process, UBS instead delegated oversight responsibility for the benchmark interest rate submissions to managers who not only knew that Derivatives Traders and Trader-Submitters were engaged in efforts to manipulate the official fixings of LIBOR, Euribor and Euroyen TIBOR, but who also made *their own requests* for submissions to benefit their individual derivatives trading positions. At least certain Derivatives Traders, Trader-Submitters and managers disregarded the few procedures UBS eventually implemented in August 2008.

UBS’s lack of specific internal controls and procedures and overall lax supervision concerning its submission processes for benchmark interest rates, allowed this misconduct to occur across multiple benchmarks and currencies and in several offices around the world. This environment enabled certain Derivatives Traders to engage in widespread, long-term systematic misconduct to manipulate Yen LIBOR and, at times, Euroyen TIBOR, alone and in concert with other banks and interdealer brokers.

**d. The Manipulation and False Reporting of Yen LIBOR and Euroyen TIBOR**

Over a period of approximately six years, from at least January 2005 through at least June 2010, UBS Derivatives Traders and Trader-Submitters routinely attempted to manipulate the daily fixings of Yen LIBOR and, at times, Euroyen TIBOR to benefit UBS’s derivatives trading positions. At times, UBS’s attempts to manipulate Yen LIBOR were successful.

Many UBS Yen Derivatives Traders and managers were involved in the manipulative conduct and made requests to serve their own trading positions interests. But the volume of unlawful requests submitted by one particular senior Yen Derivatives Trader in Tokyo (“Senior Yen Trader”) dwarfed them all.<sup>12</sup> The Senior Yen Trader spearheaded a massive effort, attempting to manipulate the Yen LIBOR fixings, at times nearly daily, and periodically the Euroyen TIBOR fixings, by making and directing requests to alter UBS’s submissions to benefit his derivatives trading positions and thereby maximize his profits or minimize his losses.

The Yen Derivatives Traders’ requests, including the Senior Yen Trader’s, typically were for the one, three, and six-month tenors for Yen LIBOR and Euroyen TIBOR. The Trader-Submitters on many occasions acquiesced to those requests and made Yen LIBOR and Euroyen TIBOR submissions with the purpose of benefiting UBS’s derivative trading positions. The requests were made over UBS’s email or chat networks and additional requests were made orally

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<sup>12</sup> In fact, some UBS Yen Derivatives Traders made requests at times to Yen LIBOR Trader-Submitters to adjust their Yen LIBOR submissions to benefit derivatives trading positions long before the Senior Yen Trader joined UBS. A year before, for example, on November 28, 2005, a Yen Derivatives Trader referred to her derivatives trading position when she asked a senior Yen LIBOR Trader-Submitter, “re 6m libor we want higher fixing as we have long 177 bio fra fix today.” The senior Yen LIBOR Trader-Submitter replied, “ok.”

by traders who sat near to or spoke by telephone with Trader-Submitters, with traders at other banks or with brokers. In addition, certain Trader-Submitters based submissions at times on his or her own or the desk's trading positions, without consulting with anyone else.

The UBS Yen Derivatives Traders making the requests and the Yen LIBOR and Euroyen TIBOR Trader-Submitters were located in Tokyo and Zurich. Over one dozen Yen Derivatives Traders and Trader-Submitters were involved, including at least two desk-level managers who were involved or aware of the conduct. At times, the desk-level managers made requests for beneficial submissions themselves or facilitated the conduct of the traders and submitters that they supervised. Moreover, senior managers of UBS above the desk-level managers had knowledge of the conduct.

The Yen LIBOR and Euroyen TIBOR Trader-Submitters considered several factors in making their submissions, but frequently gave weight and priority to the Yen Derivatives Traders' requests for specific rates or directional moves to benefit their derivatives trading positions. The Yen LIBOR Trader-Submitters also took into account their own derivatives trading positions. At times, to accommodate the Yen Derivatives Traders, the Yen LIBOR and Euroyen TIBOR Trader-Submitters submitted rates that were one or more basis points in the direction requested by the Yen Derivatives Traders, or submitted a specific rate depending on the particulars of the traders' requests.

#### **The Senior Yen Trader's Illegal Manipulative Conduct**

The Senior Yen Trader conducted his extensive, systematic course of unlawful conduct to manipulate Yen LIBOR and periodically, Euroyen TIBOR, from shortly after he joined UBS in early July 2006 until his departure in the fall of 2009, following a dispute with UBS over his compensation. Indeed, the Senior Yen Trader started making the unlawful requests during his "probationary" period as a new employee when, pursuant to UBS policy, he was not permitted to trade except under supervision.

The Senior Yen Trader employed multiple methods in his attempts to manipulate Yen LIBOR and Euroyen TIBOR. He made internal requests of the UBS Yen LIBOR and Euroyen TIBOR Trader-Submitters. But, not satisfied with altering UBS's submissions alone, he went outside UBS in an effort to influence the submissions of other banks and increase the likelihood that his attempts would be successful. Thus, he not only coordinated requests with derivatives traders at several other panel banks, but he also used several interdealer brokers to disseminate false information about Yen LIBOR and Euroyen TIBOR to other panel banks, expecting that the other banks would rely on that information when they made their own submissions. At times, he was successful in his efforts to manipulate the official Yen LIBOR fixing for a particular tenor.

The Senior Yen Trader and others at UBS made approximately 2,000 written requests of UBS's Trader-Submitters, traders at other panel banks and interdealer brokers to try to achieve their manipulative goals. The written requests of the Senior Yen Trader and others occurred on approximately 570 trading/reporting days, mostly between late 2006 and late 2009, which is approximately 75% of the time.



The Senior Yen Trader was widely considered the dominant trader in the Tokyo Yen swaps market because he traded in enormous volumes and accepted large trading risks. In fact, his trades were so large and aggressive, he reputedly contributed substantially to developing the Yen Swaps market into a robust derivatives market. Historically, the Yen swaps market was relatively stable. From 2000 to 2006, Yen LIBOR rates remained relatively flat, evidencing minimal fluctuations up or down. Given the lack of volatility in the Yen markets, there were fewer traders who focused exclusively on Yen products, and, therefore, less liquidity for traders interested in such products. All of this changed when UBS hired the Senior Yen Trader and permitted him to take large positions in the Yen market. His trades immediately injected significant liquidity in a previously illiquid market. Not surprisingly, brokers were eager to develop relationships with the Senior Yen Trader in an effort to obtain a piece of his business.

UBS highly valued the Senior Yen Trader because his trading generated nearly \$260 million in revenue for UBS. Each year, he increased the revenue he reaped compared to the year before. In 2007, he generated approximately \$40 million; in 2008, he generated approximately \$80 million, and in 2009, before he stopped trading for UBS in late summer, he generated approximately \$116 million, about three times what he generated in 2007. At the height of his trading at UBS, the Senior Yen Trader was given a risk limit of \$2 million to \$3 million per basis point. While concerns were raised at times within UBS about the amount of risk that the Senior Yen Trader was taking in the market, UBS never curtailed his trading or lowered his risk limits until near the end of his employment when he was cautioned to reduce the risk in his positions.

#### ***Internal Requests to Adjust Submissions***

The Senior Yen Trader regularly made internal requests, either directly or through other traders and his manager at UBS, to the Yen LIBOR and, periodically, Euroyen TIBOR Trader-Submitters for adjustments in the UBS submissions that benefitted the Senior Yen Trader.

Multiple UBS traders and submitters, including the Senior Yen Trader's supervisor ("Yen Desk Manager"), were aware of the Senior Yen Trader's attempts to manipulate Yen LIBOR and Euroyen TIBOR through his internal requests to the submitters. UBS managers in Tokyo and Zurich also were aware of the Senior Yen Trader's requests. The UBS managers allowed the Senior Yen Trader to engage in his conduct, which ended only when he decided to leave UBS over a pay dispute. No one involved in or aware of the misconduct reported it as wrongful to more senior management, or to UBS's compliance or legal departments. On the contrary, some of these individuals, including the Yen Desk Manager in Tokyo, engaged in the same misconduct by making their own requests to UBS's Trader-Submitters for the manipulation of Yen LIBOR and Euroyen TIBOR, or facilitating the Senior Yen Trader's requests.

The Senior Yen Trader, directly or indirectly, made at least 800 requests in writing, on UBS's email and chat systems, to the Trader-Submitters for adjustments to UBS's Yen LIBOR submissions, usually focused around the one, three and six-month tenors. The Senior Yen Trader and others on his behalf also made similar requests for adjustments to the Euroyen TIBOR Trader-Submitters to benefit his trading positions, albeit on a significantly smaller scale. Sometimes, the Senior Yen Trader made requests to benefit the trading positions of other UBS



Yen Derivatives Traders on the desk, if it happened that Yen LIBOR or Euroyen TIBOR fixings would not impact his own positions.

In making requests, the Senior Yen Trader at times identified the tenor and/or direction for which he sought assistance, using terms such as “low 1m” (indicating that he wanted a low submission for the Yen LIBOR one-month tenor submission), “high 3m” (for the three-month Yen LIBOR submission) or “unchanged.” Often, the Senior Yen Trader’s requests focused on key benchmark rate fixing dates for his swap transactions around the IMM dates (quarterly settlement dates in March, June, September and December) or the turn of the calendar year. The requests were so common that the Senior Yen Trader sometimes merely asked for the “usual axe on libors,” meaning his typical requests. Certain Trader-Submitters also understood that the Senior Yen Trader had a “standing order,” meaning the Senior Yen Trader had a preference for a higher or lower submission and that this preference remained in operation for a period of several days. Moreover, the Trader-Submitters sometimes initiated contact with the Senior Yen Trader to see if he needed any adjustments made to the Yen LIBOR submissions.

The Trader-Submitters regularly accommodated the Senior Yen Trader’s requests. In fact, one Yen Trader-Submitter indicated that he would at times adjust his submissions by up to several basis points to accommodate the requests of the Senior Yen Trader. The requests and accommodations occurred on a regular basis even after UBS had received the CFTC Division of Enforcement’s demand in October 2008 for information and documents relating to UBS’s U.S. Dollar LIBOR practices.

The following are a few typical examples of the Senior Yen Trader or other Derivatives Traders, including the Yen Desk Manager, asking in electronic chat rooms for submissions and the Trader-Submitters readily acquiescing, including an early request made soon after the Senior Yen Trader began to trade for UBS:

November 14, 2006: (Emphasis added.)<sup>13</sup>

Senior Yen Trader: “hi ... who sets our libors?”

Senior Yen Trader-Submitter: “me (or the guy in zurich) we use the cash to derive them”

Senior Yen Trader: “ok cld really do w 6m up pls if poss ...”

Senior Yen Trader-Submitter: “we been on the high side for aw hile”

Senior Yen Trader: “or on the fair side”

Senior Yen Trader-Submitter: “fair side .. exactly my thoughts but **will give it an extra notch today**”

Senior Yen Trader: “cheers most of my fixing roll off on friday for 4 days or so thanks for that”

Senior Yen Trader-Submitter: “no prob”

<sup>13</sup> The communications quoted in this Order contain shorthand trader language and many typographical errors. The shorthand and errors are explained in brackets within the quotations only when deemed necessary to assist with understanding the discussion.

December 5, 2006: (Emphasis added.)

Senior Yen Trader: "tibors still low the question is which will move first cash or futures?"

Senior Yen Trader-Submitter: "yes, trying to push those up a bit without affecting libors but not sure it'll work re what's first - thought about it y'day after u brought it up...think odds are for fixings to move cause it's them being wrong"

Senior Yen Trader: "yes have lots of 1m fixes up till imm so am trying to hold 1m down!"

Senior Yen Trader-Submitter: "we not touching 1mos tibor 1mos libor we keep lower and try to up 2mos tib & out ..."

Senior Yen Trader: "thanks for that"

February 8, 2007:

Senior Yen Trader: "hi [Senior Yen Trader-Submitter] could really do with a low 1m over the next few days as have 17.5m fixings if ok with you?"

Senior Yen Trader-Submitter: "np"

Senior Yen Trader: "thx guess you'll be trying to get 3m down for l/t [*i.e.*, libor/tibor] as well?"

Senior Yen Trader-Submitter: "unless u specicy otherwise i will have 1 and 3mos low."

Senior Yen Trader: "yes am all out of 3m but am long l/t like you so suits both of us."

March 16, 2007:

Senior Yen Trader: "strange request i know but can we go for a high 6m fix but a low 7m fix pls"

Senior Yen Trader-Submitter: "7mos .... sep turn ?"

Senior Yen Trader: "have a big interp fix today between 6m and 7m offset by straight 6m"

Senior Yen Trader-Submitter: "but can be done"

Senior Yen Trader: "if suits, assume you don't have a 7m fix? :)"

Senior Yen Trader-Submitter: ":-)"

February 4, 2008:

Yen Trader 1: "Hi ..... My name is [Yen Trader 1] and I work with [Senior Yen Trader] in Tokyo. [Senior Yen Trader] (in Sydney) asked me to ask you, if it is possible that you could kindly set 1mL and 3mL higher."

December 24, 2008:

Yen Trader 2: "Can we pls go for lower Libors tonight, across all tenors (1 m 3m and 6m) much appreciated"

Yen Trader-Submitter 1: "Will do"

July 24, 2009:

Senior Yen Trader: "[Senior Yen Trader-Submitter] talking again about lowering 3m tibor please can you head it off ... is that sorted ...?"

Yen Desk Manager: “yep.”

Senior Yen Trader: “thx”

Yen Desk Manager: “all ok on the fix?”

Senior Yen Trader: “y”

The Senior Yen Trader sometimes emphasized to the Trader-Submitters when one of his requests was particularly important, such as by saying he had a “big fix” or even a “massive fix.” At times, the Senior Yen Trader was more specific, quantifying the potential benefit to the Derivatives Traders’ position: “have 385b 6m fix today. so really need it low... half a point is 10m jpy!” As the Senior Yen Trader once exclaimed to the Senior Yen Trader-Submitter: **“I live and die by these libors, even dream about them.”** (Emphasis added).

*Reconciliation of Conflicting Internal Trading Positions*

To ensure that the Trader-Submitters implemented his requests, the Senior Yen Trader was careful not to cause a conflict with the Trader-Submitters’ trading positions. At times, the Senior Yen Trader asked the Trader-Submitters whether his request would help or hurt the latter’s derivative positions. For example, in the following chat, the Senior Yen Trader’s request served both of their interests:

January 31, 2007: (Emphasis added.)

Senior Yen Trader-Submitter: “...as we move into February, we’ll struggle a bit on keeping the 3mos fixings high we need t/l back into +ve area well positive”

Senior Yen Trader: “sure i have my last big 3m fix on feb 6th is that ok? can we last till then?”

Senior Yen Trader-Submitter: “that’s fine...no prob keeping it up till then”

Senior Yen Trader: “after that am mixed on 3m need 6m high tho, are you worried about 6m l/t?”

Senior Yen Trader-Submitter: “not at this stage”

Senior Yen Trader: “ok i am v long 3m l/t too so suits”

Senior Yen Trader-Submitter: **“one happy family then :-)”**

However, sometimes the Trader-Submitters’ own derivatives positions stood to suffer if they accommodated the Senior Yen Trader’s request. To manage that problem and make sure his preferred submissions were made, the Senior Yen Trader would enter into a separate transaction with the Trader-Submitter that would help offset any negative impact on the Trader-Submitter’s position from a submission that was made to benefit the Senior Yen Trader’s position. Such a solution was the subject of the following chats:

November 17, 2006: (Emphasis added.)

Senior Yen Trader: “thx for libor y/day i have 25m of fixes in 6m the next few days so any help gratefully received, **if you are the other way round at all let me know and we can try to do what we did y/day which worked out well for both of us!**”

Senior Yen Trader-Submitter: “**mrng mate it did work indeed** your man for the next few days is [Yen Trader-Submitter 2] the guy coming from Zurich to cover while i'm on leave will pass it on re fixings”

Senior Yen Trader: “thanks for that”

Senior Yen Trader-Submitter: “good chance we're same way round on most days”

Senior Yen Trader: “yes i seem to be long 6m libor till next thursday then i'm quite clean thereafter”

Senior Yen Trader-Submitter: “noted”

February 23, 2007: (Emphasis added.)

Senior Yen Trader: “**hi do you have any 6m fixes today? if not can we set low today pls along with 1m and 3m!**”

Senior Yen Trader-Submitter: “**think i got some fixings, actually** let me check which way round they r **i'm long a 6m fra 50 yds ntg 3s**”

Senior Yen Trader: “ok where do you see 6m today unch? **ie you need 6m high?**”

Senior Yen Trader-Submitter: “**a higher fixing gwould suit me let's see if i can sell it in mkt today ...**”

Senior Yen Trader: “which wd be your mid”

Senior Yen Trader-Submitter: “seeing it L +0.5 from y'day so .70125 for today ?”

Senior Yen Trader: “**if i can get the .7 bid i'll deal then write a tck with you at .70125? 50b?**”

Senior Yen Trader-Submitter: “**50 yds. ... dun worry abt the 0.125**”

Senior Yen Trader: “**no appreciate the help so happy to write it there...**”

Senior Yen Trader-Submitter: “**FRA or SPS [single period swap]?**”

Senior Yen Trader: “**whatever suits**”

Senior Yen Trader-Submitter: “**FRA then pls i'll send the ticket**”

Senior Yen Trader: “ta”

Senior Yen Trader-Submitter: “**tnx ... low fixing it is then low 1,3,6 mos**”

Senior Yen Trader: “ta”

*The Senior Yen Trader-Submitter's Knowledge that the Conduct Was Improper*

From the outset, the Senior Yen Trader-Submitter knew that requests to alter Yen LIBOR or Euroyen TIBOR were inappropriate and could impact the ultimate Yen LIBOR and Euroyen TIBOR fixings. Shortly after the Senior Yen Trader joined UBS in the last quarter of 2006 and started making his requests, the Senior Yen Trader-Submitter recognized that his submissions on behalf of the Senior Yen Trader were false and would be difficult to justify or explain, absent the influence of the Senior Yen Trader.

November 8, 2006:

Senior Yen Trader: “have put some pressure on a few people i know to get libors up today, mailnly 6m as i am paid that one, let me know if that doesn't suit or if

there are any particularly you need up. ... only did a few 1yr trades, wish i'd done a lot more now!"

Senior Yen Trader-Submitter: "thanks mate...wouldnt mind fixings all backup but not due to positions, rather to get things back in line with reality there shud be an obligation to deal on those fixings"

Senior Yen Trader: "yes that will be the day!"

February 27, 2007: (Emphasis added.)

Senior Yen Trader: "hi ... can we go low 1m and 3m again pls"

Senior Yen Trader-Submitter: "we'll try...**but there's a limit on to how much [w]e can shade it i.e. we still have to be within an explainable range**"

March 29, 2007: (Emphasis added.)

Senior Yen Trader: "hi ... can we go low 3m and 6m pls? 3m esp."

Senior Yen Trader-Submitter: "ok"

Senior Yen Trader: "... FYI [Yen Banks A, B, C, D] are setting .66 and [Yen Bank E] .67 what are we going to set? got tols cash was 64/62 in 3m?"

Senior Yen Trader-Submitter: "too early to say yet ... prob .69 would be our unbiased contribution"

Senior Yen Trader: "ok wd really help if we cld keep 3m low pls"

Senior Yen Trader-Submitter: "think [Yen Bank D] paying .6675 / [Yen Bank B] 66.25 bid out there as i said before - i dun mind helping on your fixings, **but i'm not setting libor 7bp away from the truth i'll get ubs banned if i do that, no interest in that**"

Senior Yen Trader: "ok obviously no int in that happening either not asking for it to be 7bp from reality anyway any help appreciated"

On one occasion, the Senior Yen Trader-Submitter even commented to the Senior Yen Trader about feeling sorry for those traders whose trades are based on "'fair' fixings."

### ***UBS's Collusion with Other Banks and Interdealer Brokers***

The Senior Yen Trader augmented his internal efforts to manipulate Yen LIBOR and, on occasion, Euroyen TIBOR for multiple tenors by coordinating with derivative traders at other panel banks and by using interdealer brokers who intermediated Yen transactions to influence, directly or indirectly, submitters at other panel banks. Thus, the Senior Yen Trader wanted to better exploit the averaging methodology used to calculate fixings by increasing the likelihood that more than one corrupted submission would be included in, or could impact, the official daily fixing of Yen LIBOR and Euroyen TIBOR.

### ***Collusion with Other Panel Banks***

As with his internal requests, the Senior Yen Trader began coordinating regularly with derivatives traders at other panel banks by January 2007. The Senior Yen Trader coordinated with traders primarily at four panel banks whom he knew or had worked with previously. The



Senior Yen Trader, or others acting on his behalf, made about 100 requests of traders at the other panel banks.

The Senior Yen Trader generally made requests of the other banks' traders, who regularly agreed to pass his requests to their Yen LIBOR or, on occasion, Euroyen TIBOR submitters. The Senior Yen Trader also made requests directly of the submitter of at least one bank. The other traders often conveyed success with comments such as, "done" and "we normally do well for u!!!"

For their own manipulative purposes of benefiting their derivatives trading positions, certain of the derivatives traders at the other banks sought reciprocating assistance from the Senior Yen Trader to make requests on their behalf to UBS's submitters. The Senior Yen Trader readily agreed to help the other traders. In fact, he often encouraged them to ask for help as a way to curry favor and ensure his requests were accommodated.

The following small sampling of the numerous communications between the Senior Yen Trader and derivatives traders at the other panel banks reveal:

- descriptions of the Senior Yen trader's strategy and his success in keeping rates "artificially high;"
- how, as with the internal requests, the Senior Yen Trader pressed traders at the other banks for assistance particularly on key fixing dates around the IMM dates or the turn of the calendar year;
- how routine the requests were and how the traders believed that LIBOR was vulnerable to manipulation at their whim and for their benefit;
- that the requests covered a number of days of LIBOR submissions at times, such that one request could result in multiple days of false LIBOR submissions potentially affecting the fixing for the same period;
- the pressure the Senior Yen Trader felt to keep making money for UBS; and
- that the traders believed that they succeeded at times.

January 19, 2007: (Emphasis added.)

Senior Yen Trader: "hi [...], **bit cheeky but** if you know who sets your libors and you aren't the other way I have **some absolutely massive 3m fixes the next few days and would really appreciate a high 3m fix**, [Yen Bank C] were one of the lowest y/day at .51. **Anytime i can return the favour let me know as the guys here are pretty accomodating to me...**"

Yen Bank C Trader: "I will try my best, but really fed up with my guys, wanted a high 6m yesterday, but came in really low (our guys one of the main culprits) - got quite badly hit on that."

Senior Yen Trader: "**you and me both, you need 6m high? if so will get my guys to set high for you today, yesterday they set 3m up at 57 for me!**"

Yen Bank C Trader: "got nothing significant for next 7 days - so will try to get high for you - just really gutted about yesterday cost me a lot."

February 2, 2007: (Emphasis added.)

Senior Yen Trader: "if not the spread may fix round 15 at the worst, **but 3m libor is too high cause i have kept it artificially high**"

Yen Bank B Trader 1: "how?"

Senior Yen Trader: "**being mates with the cash desks, [Yen Bank C] and i always help each other out too**"

Yen Bank B Trader 1: "ok thats useful to know so i assume come 1s4s it will be soft"

Senior Yen Trader: "well i am long libor in 1v4m so will try to keep high then but basically is 1bp too high right now adn come may i'll get it 1bp too low net net a 2bp swing in the fix"

Yen Bank B Trader 1: "**good man**"

February 15, 2007: (Emphasis added.)

Yen Bank B Trader 1: "u heard where this 1 mth libor is being called"

Senior Yen Trader: "yes doing everthing i can to keep it low aiming for .47 fix or better ... **i have lost about 1m usd in the last 3m on crap 1m fixes** will try too keep low"

Yen Bank B Trader 1: "me too but our cash guy is not here today so [Yen Bank B Submitter] will be putting them in and he wants a high 3s..."

Senior Yen Trader: "**GREAT !!! what about 1m? can you ask him to keep that really low? wd really help me**"

Yen Bank B Trader 1: "i did but **he will put it wherever suits his and [Yen Bank B Trader 2]'s book** and i think they have paid all these spreads !! ... **how many people can u get to put this 1m libor low**"

Senior Yen Trader: "**well us [Yen Bank C] and a few others i think**"

April 20, 2007: (Emphasis added.)

Senior Yen Trader: "**i know i only talk to you when i need something but if you could ask your guys to keep 3m low wd be massive help as long as it doesn't interfere with your stuff** tx in advance ... mate did you manage to spk to your cash boys?"

Yen Bank B Trader 1: "**yes u owe me they are going 65 and 71**"

Senior Yen Trader: "thx mate yes i do **in fact i owe you big time** mater they set 64! **thats beyond the call of duty!**"

June 29, 2007: (Emphasis added.)

Yen Bank B Trader 1: "yeah sorry the usual guy is not here at the moment the trainee is doing it **we normally do well for u !!!**"

Senior Yen Trader: "no worries mate, **if you could go high from monday for next week that wld be graet as i have 1.5t notional fixings in 6m next week! ie 75m jpy a point**"

Yen Bank B Trader 1: "wow ok then"

November 1, 2007: (Emphasis added.)

Senior Yen Trader: "hello mate, real big favour to ask. could you try for low 6m fix today pls wld be most appreciated. thx mate"

Yen Bank B Trader 1: "will try my best dude hows u ??"

Senior Yen Trader: "ok, trading like an idiot today, to be honest just want to take some risk off my book before i come back in dec, **have had ok year but management still pushing me for more, have huge 6m fix** so if you could help out today would really really really appreciate it! how are you?"

September 18, 2008: (Emphasis added.)

Senior Yen Trader: "you got any ax on 6m fix tonight?"

Yen Bank F Trader-Submitter: "absoluetly none but i can help"

Senior Yen Trader: "**can you set low as a favour for me?**"

Yen Bank F Trader-Submitter: "**done**"

Senior Yen Trader: "**i'll return favour when i can just ask** have 75m m jpy a bp tonight"

Yen Bank F Trader-Submitter: "np"

Senior Yen Trader: "thanks so much"

#### *Coordination with Interdealer Brokers to Manipulate Yen LIBOR*

From the outset of his employment with UBS, the Senior Yen Trader also coordinated on almost a daily basis with several interdealer brokers employed by at least five different brokerage firms to try to impact the Yen LIBOR and, on occasion, Euroyen TIBOR submissions of other panel banks. The Senior Yen Trader asked the interdealer brokers to utilize various means of influencing the other panel banks, including by asking the brokers to: (i) disseminate false "run-throughs" of suggested Yen LIBORs to many, if not all, of the panel banks; (ii) contact directly other bank submitters; (iii) publish false market cash rates over certain dedicated electronic screens available to clients; and (iv) "spoo" or make fake bids and offers. As set forth below, in exchange for their help, the Senior Yen Trader saw to it that the brokers were compensated in various ways such as by directing to brokers commission-generating business including "wash trades," and even by having UBS structure fees to carve out cash bonuses for brokers. He also kept them in line by sometimes threatening to move his considerable volume of business to another broker. During this period of late 2006 to late 2009, the Senior Yen Trader made approximately 1,200 such requests to brokers.

Interdealer brokers, sometimes known as voice brokers, act as intermediaries between buyers and sellers in the money markets and derivatives markets. The brokers match buyers and sellers in return for commissions, and also can be an important source of market information for banks. Typically, commissions are based on a percentage of the notional value of consummated transactions, which means that brokers get paid more by brokering larger trades. Within a brokerage firm, there are brokers for different currencies who intermediate derivatives transactions ("Derivatives Brokers") and brokers who intermediate cash transactions ("Cash Brokers"). In order to find matching counterparties, brokers provide bid or offer prices for a financial transaction. Those prices are conveyed in multiple ways. Brokers use "squawk boxes,"

which are speakerphones that can speak simultaneously to numerous trading desks of their bank clients at once, to broadly disseminate bid and offer prices. Brokers also frequently use Bloomberg instant message chats and other messaging platforms, email, and dedicated telephone lines.

Interdealer brokers provide bank traders their views on pricing and market trends, known as “market color,” and the banks rely on brokers for such information. For example, some brokers circulate each morning daily “run-throughs” of the actual rates they expect to be published for key benchmark interest rates that day, such as LIBOR in various currencies and tenors. Some also share such information directly with benchmark interest rate submitters by telephone.

Through the brokers, the Senior Yen Trader was able to influence potentially all of the other fifteen banks on the Yen LIBOR panel. Even unwitting submitters at panel banks that tried to make benchmark interest rate submissions that reflected their honest assessment of the costs of borrowing funds may have had their submissions improperly influenced because they relied upon the brokers’ purported unbiased market information. Reflective of the importance of the brokers in his scheme, the Senior Yen Trader heralded certain of the brokers with such laudatory terms as “Hero” and “SUPERMAN.”

Generally, the Senior Yen Trader contacted Derivatives Brokers with unlawful requests for beneficial rates, who would then convey the requests to and pressure their Cash Broker colleagues to implement the Senior Yen Trader’s requests by going to other panel banks.<sup>14</sup> Because this was such a standard practice and the brokers were eager to retain UBS’s business, the brokers anticipated or even solicited the Senior Yen Trader’s requests at times.

The following are examples of typical communications between the Senior Yen Trader and the brokers, indicating how Derivatives Brokers pressured Cash Brokers to make sure the wishes of the Senior Yen Trader were met, that the Senior Yen Trader often wanted the requests to stay in place over a number of days or weeks, and that the Senior Yen Trader recognized when the brokers had accommodated him.

September 10, 2007: (Emphasis added.)

Senior Yen Trader: “**once again thx libors**”

Derivatives Broker A1: “no problem just starting to worry about how i am going to push them lower next week!!”

Senior Yen Trader: “no just leave em high need high at start of oct”

Derivatives Broker A1: “ok mate”

Senior Yen Trader: “then we can make a push for lower fixes”

Derivatives Broker A1: “gotcha ...**just give me a ‘wish list’ at the start of each day and i will compose a beeging letter to [Cash Broker A] after lunch.**”

<sup>14</sup> At one such brokerage firm, the Derivatives Broker was also the Cash Broker.

Senior Yen Trader: “ok thx mate.one thing which i don't think you can do is push them one then the other way need to be consistent ie alll lower every day or vice versa”

Derivatives Broker A1: “no smalls maybe but you are better looking at the bigger picture and basing your requests on the macro outlook rather than the micro :-)”<sup>15</sup>

May 29, 2008: (Emphasis added.)

Derivatives Broker A1: “if [Senior Yen Trader-Submitter] his marking his 0/6's there you are going to have to work hard on his libor sets.....if [Cash Broker A] is doing his best to get them low and your own bank fixes high!”

Senior Yen Trader: “i knoww mate we are holding 6m but bring 3m down”

Derivatives Broker A1: “...[Cash Broker A] has knocked 3m down small (already v low and says if it goes any further he will lose credibility) and 6m down another 1/2bp”

February 9, 2009: (Emphasis added.)

Senior Yen Trader: “do you know your cash desk? ie the guy who covers yen on your cash desk”

Derivatives Broker C/D 1:<sup>16</sup> “yes mate i do”

Senior Yen Trader: “right from now on I need you to **ask him a favour on the fixes i will make sure it comes back to you i alrteady do it with [Brokerage A]** basically can you ask him to broke 3m cash ie libor lower for me today **i will look after you off the back of it i do that for [Brokerage B] too** so emphasise the importance to you just suggest it looks a little softer to his accounts”

Derivatives Broker C/D 1: “ok mate I understand i will go and speak to him”

Senior Yen Trader: “stuff like that thanks mate is very important to me today”

Derivatives Broker C/D 1: “**just spoke to them and they are on the case**”

Senior Yen Trader: “**ok mate much appreciated if we do this going forwards it will come back to you in spades did you emphasise the importance?**”

Derivatives Broker C/D 1: “i did”

Senior Yen Trader: “ta”

### *Using False “Run-Throughs” of Predicted Yen LIBORs*

The Senior Yen Trader repeatedly had at least one broker distribute false Yen LIBOR predictions that were skewed to benefit the Senior Yen Trader’s derivatives trading positions by

<sup>15</sup> To avoid detection, the Senior Yen Trader and at least one broker used code words at times. But undermining their efforts to conceal, they blatantly discussed the need to use code words in electronic chats. In late 2007, Brokerage A told the Senior Yen Trader that they both needed to “be a little more subtle in [their] views” and his emails “needed to be worded more carefully.” The Senior Yen Trader and Derivatives Broker A1 decided to use code words to mask the requests by using words such as “political correctness,” “arbitrage,” “arb,” or “arbi.” Despite the agreed-upon code words, as evidenced above, for the most part the UBS Senior Yen Trader spoke plainly about his desire to manipulate rates.

<sup>16</sup> During the course of the Senior Yen Trader’s employment at UBS, Derivatives Broker C/D 1 moved from Brokerage C to Brokerage D, where he continued to broker the Senior Yen Trader’s transactions and assist him in his manipulative schemes.



means of lists known as “run-throughs” that brokers would send to numerous, if not all, of the Yen LIBOR panel banks. As a service, cash brokers at the brokerage firms disseminated daily run-throughs to inform the banks of trading ranges observed by brokers for certain types of Yen transactions over the prior 24 hours as well as Yen LIBOR fixings anticipated or “suggested” by the brokers. These broker predictions became increasingly influential during the financial crisis that commenced in August 2007, as discussed *infra*, when the number of observable interbank transactions diminished. At least several panel banks relied on the run-throughs for making their Yen LIBOR submissions and, at times, some banks simply submitted the very rates suggested by the brokers. The Senior Yen Trader knew that panel bank submitters frequently used broker-suggested rates in making their own Yen LIBOR submissions.

To exploit the run-through process to his advantage, the Senior Yen Trader regularly asked that Brokerage A’s run-throughs reflect “suggested rates” that would benefit the Senior Yen Trader’s position. He communicated with Derivatives Broker A1, who then conveyed the request to Cash Broker A, intending for the rest of the panel banks to follow Cash Broker A’s suggestions. Derivatives Broker A1 typically confirmed back that he had sent the request on to Cash Broker A. The Derivatives Broker A1 often made such comments as:

- “i’ll get [Cash Broker A] to send what we need and we will just have to hope they follow his lead;”
- “yes he knows what we need need..thats where he reckons they will come in though even with his massaging;” and
- “[Cash Broker A] sending out higher than he thinks so **hopefully the sheep will just copy.**” (Emphasis added.)

The Senior Yen Trader frequently succeeded in getting Brokerage A to send false LIBOR predictions, and sometimes even to change already distributed run-throughs to his advantage. For example, on June 28, 2007, Cash Broker A had already sent his daily run-throughs with six-month Yen LIBOR “suggested” at a rate of 0.86. Derivatives Broker A1 pressured Brokerage A management to have the run-throughs re-sent with a higher six-month rate, 0.865, that was more skewed toward the Senior Yen Trader, along with the added instruction that Cash Broker A “get his banks setting high.” Derivatives Broker A1 emphasized that “[Senior Yen Trader] is not happy.” Cash Broker A dutifully re-sent his “suggested Libors” with six-month Yen LIBOR set at 0.865, as demanded.

In another similar example, on September 4, 2007, the Senior Yen Trader and Derivatives Broker Trader A1 discussed the need to send a revised “run-through,” which Brokerage A management accommodated:

Derivatives Broker A1: “[Cash Broker A’s] libors 1m 81...3m unchanged (though he says the yen bids are still very high for \$)...6mos unchanged you ought to be able to help yourself in 3mos, [Senior Yen Trader-Submitter] moved down from 99 to 96 yetserday and in 6mos if you want that higher...”

Senior Yen Trader: “...can we try to get 6m up today pls mate”

Derivatives Broker A1: “think flat will be the best looking at the cash rates but **will ask [Cash Broker A] to send out another run higher**”

Senior Yen Trader: “thx.”

(Emphasis added.)

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Derivatives Broker A1: “try and get [Cash Broker A] to send out a revised libor run with 3m and 6m higher please ....”

Brokerage A Yen Manager: “will do...**on the back of his revised libors, sent at your request** but he thinks it might be nearer 107 than 106”

(Emphasis added.)

In statements made to the Senior Yen Trader, Derivatives Broker A1 often claimed success in getting panel banks to contribute advantageous submissions to the Yen LIBOR panel:

- “[Cash Broker A] has been doing a number on some of the contributors because a couple of them were edging their libors slightly lower yesterday before he intervened;”
- “morning mate...seems [Cash Broker A’s] cover does have some influence, people actually took notice of his 87 libor! will be back on his case again today;”
- “i hope that 6m libor has got me back in your good books!! used all my powers of persuasion on that one;-) .. think [Yen Banks G and H] must have looked at [Cash Broker A’s] first suggestion....they both moved up 11bps to 1.10;” and
- “you have a really big fix tonight i believe? if [Cash Broker A] sends out 6m at a more realistic level than 1.10 i reckon [Yen Banks G and H] will parrot him, it might mean 6m coming down a bit.”

#### *Using Interdealer Brokers to Help Pressure Other Banks*

The Senior Yen Trader routinely requested that the brokers use their bank relationships to help pressure banks to make submissions in his favor. Set forth below are examples of communications within brokers or between brokers and the Senior Yen Trader concerning their respective efforts with specific banks. The discussions reveal how the Senior Yen Trader and the brokers worked together as a team to ensure that he got the rates he wanted.

September 4, 2007:

Derivatives Broker A1: “hi mate,see you dropped your 3m and 6m libors yesterday making you one of the lowest fixers!!”

Senior Yen Trader: “...ok i’ll have a word on 3m they are getting pressure from above”

Derivatives Broker A1: “...you are just about the lowest now”

Senior Yen Trader: “yes i know....[Yen Bank B] shifted down 5bp too will ask [Yen Bank B Trader 1] if he can do me a favour with a high fix”

Derivatives Broker A1: “ok i’ll see if [Yen Bank B Submitter] is doing libors at the mom,he never seems too bothered...though not sure he is”

Senior Yen Trader: “thx”

November 1, 2007: (Derivatives Broker A1 to Brokerage A Yen Manager)

Derivatives Broker A1: “[Senior Yen Trader] WOULD LIKE YOU TO ASK [Yen Bank B Submitter] (Yen Bank B) IF HE'S NOT FUSSED TO TRY AND KNOCK HIS LIBOR A BIT LOWER. HE HAS SOLD A LOAD OF 1Y WITH ME TODAY AND HE HAS A LOT OF FIXE S COMING UP. THANKS.”

February 26, 2009: (Emphasis added.)

Senior Yen Trader: “right mate i really need 2 things 1 low 3m 2 high 6m i know 1m goes over turn but try to keep that down too pls high 6m is v v v important”

Derivatives Broker B1: “high 6s ok mate let me bid that up and ill have another word **i did get couple people to change em in 3s yesterday** but that tossser ay [Yen Bank I] put em up im sure he did such an a holen he is.”

March 19, 2009: (Emphasis added.)

Senior Yen Trader: “need low everything pls try really hard to get [Yen Bank J] down”

Derivatives Broker B1: “ok did he put them down yesterday ?”

Senior Yen Trader: “nah same”

Derivatives Broker B1: “ok”

Senior Yen Trader: “[Yen Bank I] too for 3m the people are [Yen Bank I] at 63 [Yen Bank J] 62 [Yen Bank H] 62 [Yen Bank B] 62 [Yen Bank K] 63 he def should be lower [Yen Bank A] 62 [Yen Bank G] 63 **all those we can get down to 60 or 61...**”

Senior Yen Trader: “ok try for [Yen Panel Bank J] and the Japanese [panel banks] and [Yen Bank I] as priority pls”

Derivatives Broker B1: “kkk”

Senior Yen Trader: “”thx...pls push really hard.”

Derivatives Broker B1: “**yes already had a word with a couple of them** [Yen Bank J] n [Yen Bank B] said they should be lower workin on [Yen Bank A] n [Yen Bank K]”

Senior Yen Trader: “ta.”

March 23, 2009: (Sent as a blind message simultaneously to Derivatives Broker B1 and Derivatives Broker C/D 1.)

Senior Yen Trader: “Hi need LOW 3m and 1m HIGH 6M, 3m is most important [Yen Bank A] and [Yen Bank K] both setting 62 they should be lower [Yen Bank A] is setting lower in 3m tibor [Yen Banks I, H and G] both at 62 , they can go to 61? For 6m push for higher thanks”

March 31, 2009:

Senior Yen Trader: “mate we have to get 1m and 3m down 1m barely fell yesterday real important”

Derivatives Broker C/D 1: “yeah ok”

Senior Yen Trader: “banks to have a go w in 1m are [Yen Banks A, I, D, H, L, C, B, K and G] pls”  
Derivatives Broker C/D 1: “got it mate”

*Publishing False Market Rates to Panel Banks on Broker Screens*

The Senior Yen Trader asked certain brokers to falsify the purported prevailing market rates that brokers displayed on electronic screens made available to clients, such as the panel banks. The screens were intended to show prices of actual cash or derivatives trades, which panel banks then could take into consideration in determining Yen LIBOR submissions. The Senior Yen Trader wanted brokers to report false prices on the screens in an effort to skew other banks’ Yen LIBOR submissions. Because these screens were available to several, if not all, of the panel bank members and the submitters used this information at times in determining submissions, dissemination of false market rates had the potential of improperly influencing many of the Yen LIBOR submissions on any given day.

Below are examples of Derivatives Broker A1 and the Senior Yen Trader discussing how Derivatives Broker A1 would falsify the screen rates to assist the Senior Yen Trader’s fraudulent influence on other panel bank submissions:

September 15, 2008: (Emphasis added.)

Senior Yen Trader: “hi mate i am going to be super busy, **can you do me a favour and keep the 1yr screen as low as reasonably possible...libors were good.**”

Derivatives Broker A1: “**OK MATE NO WORRIES WILL DO ALL I CAN....SAW THE LIBORS, GOOD NEWS**”

June 3, 2009: (Emphasis added.)

Senior Yen Trader: “**can you get the swasp [swaps] on the screen all lower 1y18m2y3y...**”

Derivatives Broker A1: “**...will move the screen as the futures open , you lioke low everything?**”

*“Spoofing:” Publication of False Bids and Offers*

The Senior Yen Trader also asked certain brokers to post false bids and offers for cash trades to further disseminate false pricing information to the market and other Yen panel banks and thereby benefit his positions. This is sometimes known as “spoofing the market.” Cash and Derivatives Brokers, as intermediaries in the market, disseminate bids and offers they receive from clients, in search of counterparties. As the Senior Yen Trader knew, panel banks took these bids and offers into consideration when determining their submissions because they help measure borrowing costs. Seeking to exploit that process for his own benefit, the Senior Yen Trader encouraged brokers to provide false bids and offers to certain Yen LIBOR submitters to influence their submissions. For example:

July 7, 2008: (Emphasis added.)

Senior Yen Rates Trader: “**1m libor is causing me a real headache .. i need it to start coming lower**”

Derivatives Broker B1: “yeah i know mate ... **ill try and push a few fictitious offers** and this mng see if tahts helps”

March 30, 2009: (Emphasis added.)

Senior Yen Trader: “i REALLY REALLY need 1m down to 35 and 3m down to 59 6m i'd prefer unchanged ... use the turn to push 1m and 3m down as much as you can ... but **need 3m lower pls by 2bp or so**”

Derivatives Broker B1: “ok mate ustd ill get on the case ... ok **im gonna get some spoof offers on the baord 1 3s**”

Senior Yen Trader: “... you working hard for me?”

Derivatives Broker B1: “sure mate of course i know the rules”

*The Senior Yen Trader Ensured Interdealer Brokers Were Compensated for Assisting the Manipulative Scheme*

Throughout the period, the Senior Yen Trader sought to ensure the cooperation of brokers by compensating them in various ways, from offering drinks and bottles of champagne to steering them additional commission-generating business, to ensuring at least one broker personally received large cash bonuses. The Senior Yen Trader also used his financial leverage with at least one broker for whom UBS generated significant commissions by threatening to cut off UBS's business with the brokerage if the firm did not comply with his requests.

*Extra Trades to Generate Commissions*

The Senior Yen Trader routinely offered brokers at Brokerages B, C and D extra transactions or other business, and thus UBS-paid commissions, to ensure they would provide needed assistance. For example, the Senior Yen Trader told them:

- o “I still owe you some deals;”
- o “we'll do some big tix soon i promise;”
- o “do the bisness and i'll sort you out MASSIVE;”
- o “if you get 3m down you'll get a decent deal from me tomorrow;”
- o “if you manage that for the next 2 weeks you will see the benefits;”
- o “make sure they know that it pays for them to help out;” and
- o “i need to pay .. to give u a trade.”

*“Wash” Trades to Generate Commissions*

For at least one of the brokers, the Senior Yen Trader used “wash” or “switch” trades to generate additional commissions in return for the broker's assistance. Generally, a “wash” trade is a pair of offsetting trades that are intended to negate risk or price competition and that result in a financial nullity. The trades, however, generate commissions. For example, on September 18,



2008, the Senior Yen Trader offered Derivatives Broker B1 \$50,000 or \$100,000 or more in commissions for his assistance in the Senior Yen Trader's attempts to manipulate Yen Libor:

"if you keep 6s unchanged today I will do fucking one humongous deal with you...Like a 50,000 buck deal whatever. I need you to keep it as low as possible ...I'll pay you, you know, 50,000 dollars, 100,000 dollars ... whatever you want... I'm a man of my word."

Less than a week later, on September 24, 2008, upon the apparent success of Derivatives Broker B1, the Senior Yen Trader used this broker to engage in a series of "wash" trades with several derivatives traders at other panel banks to generate the promised \$50,000 in commissions and fees for Derivatives Broker B1. In fact, from September 2008 to August 2009, the Senior Yen Trader used Derivatives Broker B1 to engage in at least eight "wash" trades with various panel banks, generating approximately \$286,000 in commissions for Derivatives Broker B1, all as a payoff for the Derivative Broker B1's manipulative efforts on behalf of UBS's Senior Yen Trader.

*UBS Paid a Special Bonus for Cash Broker A*

The Senior Yen Trader steered a significant volume of UBS business to his favored brokers. *i.e.*, those that helped him in the manipulative scheme. For example, he singlehandedly accounted for approximately twenty percent of Brokerage A's Yen Desk's business, making him that desk's biggest client. In return, as described above, Derivatives Broker A1 was one of the Senior Yen Trader's key contacts for his collusive efforts and they worked as a team in the manipulative scheme.

The Senior Yen Trader considered Cash Broker A very effective in the scheme, particularly Cash Broker A's provision of false information via "run-throughs" to influence panel banks. However, at times, Cash Broker A resisted the Senior Yen Trader's requests and complained internally that he was not adequately compensated for his "services" to the Senior Yen Trader.

To maintain Cash Broker A's valuable assistance, the Senior Yen Trader not only encouraged Brokerage A to pay Cash Broker A bonuses, he also secured a special compensation package through UBS to pay Cash Broker A as well as the other individual brokers at Brokerage A who helped the scheme. During the time UBS was renegotiating UBS's fee structure with Brokerage A because of all the business UBS generated for Brokerage A, the Senior Yen Trader lobbied UBS to pay Brokerage A an additional quarterly payment of approximately \$27,000 for the "fixing service," amounting to approximately \$110,000 annually. The payment was ultimately shared by several other individuals at Brokerage A, with Cash Broker A receiving approximately \$9,000 quarterly. This special compensation package was in place for approximately two years totaling more than \$216,000.

After securing this special compensation for Brokerage A, the Senior Yen Trader became even more demanding, and expected the brokers at Brokerage A to implement all of his unlawful requests for false Yen LIBOR suggestions and incorporate them into the run-throughs. On occasions when Cash Broker A did not honor such requests, the Senior Yen Trader became

angry and threatened to take away his business. Those threats were taken seriously. The Senior Yen Trader's primary contact there, Derivatives Broker A1, and Brokerage A Yen Manager pressured Cash Broker A to honor the Senior Yen Trader's requests. For example, on June 28, 2007, Cash Broker A resisted sending a revised "run-through" reflecting the Senior Yen Trader's preferred six-month rate. Derivatives Broker A1 and Brokerage A Yen Manager had the following exchange (all caps in original):

Derivatives Broker A1: "...THIS IS GETTING SERIOUS [Senior Yen Trader] NOT HAPPY WITH THE WAY THINGS ARE PROGRESSING HE IS GOING TO HAVE A WORD WITH [Derivatives Broker E1] TO RECTIFY THE SITUATION. CAN YOU PLEASE GET HOLD OF [Cash Broker A] AND GET HIM TO SEND OUT 6 MOS L IBOR AT 0.865 AND TO GET HIS BANKS SETTING IT HIGH. **THIS IS VERY IMPORTANT BECAUSE HE IS QUESTIONING MY (AND OUR) WORTH.....GET 6MOS HIGH PLEASE.**"

Brokerage A Yen Manager: "mailed him spoke to him, **he realises that the carrot might go if this carries on.**"

Ultimately, Cash Broker A sent the demanded revised run-through with the six-month suggested Yen LIBOR at the level requested by the Senior Yen Trader.

#### *Summer 2009 Schemes: the "Turn Campaign" and "Operation 6M"*

Throughout his tenure at UBS, the Senior Yen Trader routinely employed each of his means of manipulation — internal requests, collusion with other panel banks, and coordination with brokers. At times, he used all three means simultaneously for a longer period to achieve his objective. This is illustrated by two long-term efforts from June through August 2009, which were dubbed the "turn campaign" and "operation 6m," respectively.

By June 2009, the Senior Yen Trader had amassed significant positions in Yen interest rate swaps tied to one, three and six-month Yen LIBOR, in spreads between the various tenors of swaps (such as the spread between three-month yen swap and six-month yen swap), and in spreads between swaps tied to Euroyen TIBOR and Yen LIBOR. The Senior Yen Trader's positions became so large at various points that the Senior Yen Trader was close to exceeding internal risk limits imposed by UBS. The largest positions were tied to six-month Yen LIBOR. Rather than entering into legitimate hedging positions that would offset his risk, however, the Senior Yen Trader made two coordinated and sustained pushes, to manipulate the official fixings of six-month Yen LIBOR and Euroyen TIBOR in ways that would benefit his massive positions.

#### *The Turn Campaign*

The Turn Campaign commenced in early June 2009. The Senior Yen Trader's derivatives positions tied to six-month Yen LIBOR were due to reset or mature on June 29, 2009 and would benefit from a high six-month Yen LIBOR. A single basis point move in Yen LIBOR was worth approximately \$2 million to him. The Senior Yen Trader coordinated with the UBS Yen Trader-Submitter 1, the primary four brokers he used, and his friend, the Trader-Submitter at Yen Bank F, to try to keep six-month Yen LIBOR high. He explained how they should

accomplish his objective. He quantified and emphasized for them the potential impact on his derivatives trading positions. He encouraged the brokers to push submitters at other panel banks for high six-month Yen LIBOR submissions and to provide "spoof bids" to the market so market participants believed the rates were rising. At times, some of the brokers agreed to enforce the plan by confronting other banks that acted against his interests.

The following are examples of Turn Campaign communications:

June 10, 2009: (Emphasis added.)

Senior Yen Trader: "LOW 1m LOW 3m HIGH 6m 6m is important today mate **pls spoof bids.**"

Derivatives Broker B1: "rite ok mate ill make a special effort"

June 12, 2009: (Emphasis added.)

Senior Yen Trader: "i have such big positions on monday **i have 1.5m usd a bp 6m fix** will ask [Yen Bank F Trader/Submitter] for a one day favour we will move up for one day too"

Derivatives Broker A2: "i know mate, i'm trying to keep on top of it, if it moves out of line for 10 secs you know i'll see it and pull it back."

June 16, 2009: (Emphasis added.)

Derivatives Broker A1: "Good morning mate.....**the "turn campaign" begins today.** Will put an e-mail together at lunchtime to [Cash Broker A]."

Senior Yen Trader: "thx."

June 17, 2009: (Emphasis added.)

Senior Yen Trader: "**can you start having chats with your boys about 6m over the turn?** i'd be interested to see what they think it'll go up by anyway low3, low1m] high 6m"

Derivatives Broker B1: "ok mate will do"

Senior Yen Trader: "but to be honest am quite happy with them all unchanged so don't bust a gut **main thing now is to start planting the seed of the turn just casual chatting you know**"

Derivatives Broker B1: "yep sure thing mate ill start having the converstaion with some guys here"

Senior Yen Trader: "just ask em what they think it'll move by...and **say other people think maybe 3bp ie talk it up lots**"

Derivatives Broker B1: "yes ok mate understood ill do what i can to help"

Senior Yen Trader: "**u da man**"

Derivatives Broker B1: "**aim to please mate**"

June 24, 2009: (Emphasis added.)

Senior Yen Trader: "6m is huge for me on monday..."

Derivatives Broker A1: "i have been putting **arbi** pressure on [Cash Broker A] and [Brokerage A Yen Manager]...**would help your cause to also speak to**

**[Brokerage A Yen Manager] on friday regarding the turn squeeze and its importance... i will remind you."**

Senior Yen Trader: "...thanks i will get [Derivatives Broker B1] on the case too **remind me to get in touch with [Yen Bank F Trader-Submitter]."**

Derivatives Broker A1: **"yeah need to pull out the big guns for this one, don't let [Yen Bank F Trader-Submitter] forget either. :-)"**

June 25, 2009:

Senior Yen Trader: "can you put 6m up on monday when we go through the turn just for a week or so? ... you did say you'd try to help me out!"

Yen Bank F Trader-Submitter: "yes have eno fixing untill 06/07 so i can"

Senior Yen Trader: "thanks mate"

June 26, 2009: (Emphasis added.)

Senior Yen Trader: **"pls tell your cash boys i need a high 6m is v v important"**

Derivatives Broker C2: "what lvl shall I suggest? .. yesterday's drop was a bit **of a shocker (in 6m libor) any idea why that happened? ..."**

Senior Yen Trader: **"2 people moved it 11bp between them"**

Derivatives Broker C2: **"the cheek who was it?"**

Senior Yen Trader: **"[Yen Bank M] and [Yen Bank N]. if you can have a word"**

Derivatives Broker C2: **"will do mate"**

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Senior Yen Trader: "i need you to move 6m up for 2 weeks mate...but please move 6m up on monday."

Yen Bank F Trader/Submitter: "understood"

Senior Yen Trader: **"thx i need you in the panel on Monday"**

Yen Bank F Trader/Submitter: "ok enough"

On the day of the fixing, June 29, 2009, the Senior Yen Trader made one final push to manipulate higher the six-month Yen LIBOR fixing. He confirmed his expectations of a high submission with the UBS Yen Trader-Submitter 1 and Yen Bank F Trader-Submitter. He also ensured that Derivatives Broker A1 would contact each panel bank. They discussed the expected submission by each bank and what strategy Brokerage A would employ to try to get each submission higher to meet Senior Yen Trader's goal, such as a "few spoof bids" or direct urging of the various submitters. The following are excerpts from the numerous conversations the Senior Yen Trader had that day with Yen Bank F Trader-Submitter, UBS Yen Trader-Submitter 1 and the brokers:

June 29, 2009:

*Internal Request:* (Emphasis added.)

Senior Yen Trader: "hi...6m cash crosses the year end today we have huge fixings"

Yen Trader-Submitter 1: "indeed"

Senior Yen Trader: "can we set 6m libor high pls?..."

Yen Trader Submitter 1: "...we dont have any fix at mom"

Senior Yen Trader: “can we go 74 or 75? we have 2m usd a bp fix for the next week i think a lot of people are going to move it up today well i hope”  
Yen Trader-Submitter 1: “yes sure will. i go with 0.75 for you.”

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*External Request to Yen Bank F*: (Emphasis added.)

Senior Yen Trader: “pls remember 6m today...”  
Yen Bank F Trader-Submitter: “yah no worries...6m libor today good contrib?”  
Senior Yen Trader: “high pls as high as you can manage we are going 75 anyway whatever you can do thx.”  
Yen Bank F Trader-Submitter: “sure np...”

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*Request to Broker*: (Emphasis added.)

Senior Yen Trader: “ok lets go thru em one by one.”  
Derivatives Broker B1: “sure”  
Senior Yen Trader: “first up try to get all libors up i don't care if 1m and 3m go up too lets go for 3bp on 6m also tibors were up pls use that with the japanese banks”  
Derivatives Broker B1: “ok”  
Senior Yen Trader: “...make sure [the banks] all know its the turn...”  
Derivatives Broker B1: “yeah thats needed bevcasuse sometimes poepel forget and set them the same...”  
Senior Yen Trader: “...do your best and i'll sort u out.”  
Derivatives Broker B1: “[Yen Bank K] rite i know him he speak to my dolla desk thats where r orders come from ill have a word with him amnd ask to get it up ok mate”  
Senior Yen Trader: “v v v important. pls try extra extra hard mate”  
Derivatives Broker B1: “i will mate i know yu need it.”  
Senior Yen Trader: “ok mate i going in 3m pls pls pls try we are going 75 so is [Yen Bank F]”  
Derivatives Broker B1: “ok cheers.”  
Senior Yen Trader: “get em up mate”  
Derivatives Broker B1: “ill trying really hard”

Although the Yen LIBOR fixing began to drop slowly over the month of June 2009, the fixing actually rose by three quarters of a basis point on June 29, as compared to the previous fixing on June 26. UBS increased its submission on June 29 by 3 basis points, and Yen Bank F increased its submission by 6 basis points. Five other banks in the panel, all of which were discussed by the Senior Yen Trader and Derivatives Broker B1 in their planning call on June 29, also increased their submissions two to five basis points.<sup>17</sup> While the move in the fixing was not as great as needed for his positions, the increase was sufficient enough to reduce the losses experienced by the Senior Yen Trader.

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<sup>17</sup> The Commission finds that other panel banks made submissions that were consistent with the Senior Yen Trader's requests. The Commission does so without addressing whether or not such banks made such submissions as a result of the Senior Yen Trader's requests.



*Operation 6M*

During the Turn Campaign, the Senior Yen Trader began his second effort to push six-month Yen LIBOR high after June, in an effort he dubbed, "Operation 6m." Operation 6m was a campaign by the Senior Yen Trader to manipulate the six-month Yen LIBOR fixing upwards over several weeks through July, and then to cause the six-month Yen LIBOR fixing to drop dramatically in mid-August. The Senior Yen Trader also remained focused on the Euroyen TIBOR fixing, which would impact his derivatives trading positions on the spread between Euroyen TIBOR and Yen LIBOR.

The motivation for this effort was clear. If the Senior Yen Trader was successful in causing an increase to the six-month Yen LIBOR between the end of July and then a drop in the fixing in mid-August, the UBS Yen Desk stood to gain hundreds of millions of dollars.

As with the Turn Campaign, the Senior Yen Trader's key contacts at certain brokerages and his friend Yen Bank F Trader-Submitter were critical to his plan. The Senior Yen Trader emphasized that he was trying to benefit his derivatives trading positions and manage his massive risk position. He explained he was under pressure from UBS to reduce his substantial risk position.

The following are examples of the communications surrounding the beginning of Operation 6m in late June and July.

June 24, 2009: (Emphasis added.)

Derivatives Broker A1: "Morning..., [Yen Bank B] must have had some fixings, not helping"

Senior Yen Trader: **"he on drugs for once i just want them static and they are falling!...pls try to keep 1y low on screen mate yeah i just need thgis 6m gap for 2weeks"**

Derivatives Broker A1: "will do my best mate"

Senior Yen Trader: "then they can all go down hopefully tiber will stay high **operation 6m.**"

Derivatives Broker A1: ";-)..."

June 26, 2009:

Senior Yen Trader: "...but for the next 2weeks i really really need you to put 6m highfer"

Yen Bank F Trader-Submitter: "what is the adte just that i know?"

Senior Yen Trader: "july 14...after that i need 6m to crash off like you."

Yen Bank F Trader-Submitter: "that is no problem for me, i do nothing with the cash guys until then. ..."

Senior Yen Trader: "... i will then get our 6m way down after july 18th it is

Yen Bank F Trader-Submitter: "ok"

Senior Yen Trader: "and will try to get everyone else down too"

Yen Bank F Trader-Submitter: "when is the lest fixing date?...the last july fixing date??"

Senior Yen Trader: "18th...then i a need low low low...sry 17th...i happy for all libors off after that date...only reason i on bid is i have huge huge position that way so am happy for to come lower after the 17th"

Yen Bank F Trader-Submitter: "ok enough enopugh..."

July 1, 2009:

Senior Yen Trader: "hi .... are we planning on moving libors or just going unch?"

Yen Trader- Submitter 1: "i would have gone slightly lower in 6s but if you wish i can leave it unchanged"

Senior Yen Trader: "thx really need it unch for next 2wk then low as you want"

Yen Trader- Submitter 1: "ok 0.71 unc"

Senior Yen Trader: "ta."

July 7, 2009: (Emphasis added.)

Senior Yen Trader: "mate u gotta help with [Yen Bank JJ]"

Derivatives Broker B1: "ill do my best to ask amte ok"

Senior Yen Trader: "pls if he only goes up 2bp that brings em back 0.25 no one will notice"

Derivatives Broker B1: "sure ok mate ill try ill run him thru a bit higher this mng aswell to try and show it small higher"

Senior Yen Trader: "**just bid him some as well then he can tell his bosses look its bid here thats all he needs to do say well its bid here and we can't offer it**"

Derivatives Broker B1: "ok sure mate i can only ask not tell him as yu know ok"

Senior Yen Trader: "y but **he loves you mate** he told me."

Derivatives Broker B1: "hahahah rite ill try and be his friend nomn juts his broker"

July 14, 2009:

Senior Yen Trader to Yen Bank F Trader-Submitter: "...just fyg after eom [end of month] will get 6m down a lot. we will move from top to bottom and so will [Yen Panel Bank JJ]"

July 15, 2009: (Emphasis added.)

Derivatives Broker C/D 1: "... ha ha ok mate **i can see you as captain chaos** cash still looking a touch easier but nothing much going on arbi are starting to produce bids so hopefully the offers may go back"

Senior Yen Trader: "ok i only need 6m high this month then you **MUST** get it lower a lot lower pls keep 3m and 1m unch."

Derivatives Broker C/D 1: "ok ..."

*Avoiding Conflict with Yen Bank F Trader-Submitter's Interests*

During Operation 6m (and at other times), the Senior Yen Trader offered to enter into trades with Yen Bank F Trader-Submitter to ensure that their respective interests aligned and Yen Bank F Trader would not have a conflict that prevented him from helping the Senior Yen Trader with his attempt to manipulate the Yen LIBOR fixing.<sup>18</sup> The Senior Yen Trader urged Yen Bank F Trader: "tell me what you need to see. i have a vested interest in making sure our fixings match." As he was so concerned that Yen Bank F not make a competing submission, the Senior Yen Trader offered such trades even at prices that were not beneficial to him to entice Yen Bank F Trader-Submitter, and the latter often accepted. For example on July 21, 2009, the Senior Yen Trader outlined his plan, the size of his positions, the need to reduce his risk and how Yen Bank F Trader-Submitter could benefit from an attractive trade:

Senior Yen Trader: "i been asked to reduce risk a bit"

Yen Bank F Trader-Submitter: "ok"

Senior Yen Trader: "i still going for lower 6m next month but position is huge if you want to do some 1y l/t 1 wld help me on risk limits obviously i am still very much paid and need a low 6m from next week"

Yen Bank F Trader-Submitter: "me paying 1 in 1y?"

Senior Yen Trader: "y i don't want to do it but **risk are going nuts position is v v big i told them already 6m will be lower next month problem is all my 6m fixes this month rolled and i am left too 1 way** completely up to you if not i'll give some 3m l/t."

Yen Bank F Trader-Submitter: "... does not suit me taht much today need high 6m libor today...."

Senior Yen Trader: "same **how about we do 0v6 spot as well? so no fix today i just need to keep the risk guys at bay 200b 1y will bring me in limit i will pay you .665 for 0v6 today in same amount to knock the fix out if you need** i think it does nothing today the fix that is wld be a massive favour...if you do 200b 1y then what net fix are you left with? i will hedge the balance so you are neutral"

Yen Bank F Trader-Submitter: "**can i do 200 and lower my 6m quote? oor we cross fra up to you mate**"

Senior Yen Trader: "**rahter just cross the fra pls**"

Yen Bank F Trader-Submitter: "**that is fair ok we done**"

Senior Yen Trader: "thanks"

(Emphasis added.)

*The Last Phase of Operation 6M*

As Operation 6m moved from the end of July, the Senior Yen Trader shifted his efforts from attempting to increase the six-month Yen LIBOR higher, to ensuring that the fixing would be lower in August to benefit his derivative trading positions that were due to reset in mid-

<sup>18</sup> The Senior Yen Trader offered similar offsetting trades to UBS Trader-Submitters when their positions stood to be negatively impacted by a manipulation that favored the Senior Yen Trader. (see pp. 15-16.)

August. Derivatives Broker A1 advised the Senior Yen Trader to be careful with his efforts and to avoid too obvious changes in the rate. The Senior Yen Trader assured him not to worry, and that he was coordinated with Yen Panel Banks F and J:

July 22, 2009: (Emphasis added.)

Senior Yen Trader: "11th aug is the big date i still have lots of 6m fixings till the 10th"

Derivatives Broker A1: "christ keeps getting extended started off as 14th of this month:-)"

Senior Yen Trader: "i know"

Derivatives Broker A1: "**if you drop your 6m dramatically on the 11th mate, it will look v fishy**, especially if [Yen Bank J] and [Yen Bank F] go with you **I'd be v careful how you play it**, there might be cause for a drop as you cross into a new month but a couple of weeks in might get people questioning you."

Senior Yen Trader: "don't worry **will stagger the drops ie 5bp then 5bp**"

Derivatives Broker A1: "ok mate, don't want you getting into sh it"

Senior Yen Trader: "**us then [Yen Bank F] then [Yen Bank J] then us then [Yen Bank F] then [Yen Bank J]**"

Derivatives Broker A1: "**great the plan is hatched** and sounds sensible"

In August 2009, when the Senior Yen Trader was on an extended absence from the office, he ensured that in his absence the brokers and UBS Yen Trader 2 had instructions on how to attempt to move the six-month Yen LIBOR. Derivatives Broker A1 followed through and worked closely with Yen Trader 2 to accomplish the objectives of the Senior Yen Trader. In his conversations with Yen Trader 2, Derivatives Broker A1 assured him, "I know what you need in terms of libors and will let you know what my cash guru in london honestly feels as to their movements each day....he has his 'arbitrage' instructions!"

In July, the submissions of UBS and Yen Bank F both moved higher consistent with the plan. In August, the submissions of all three banks, UBS, Yen Bank F and Yen Bank J, all moved lower consistent with the plan. By August 11, the day of the Senior Yen Trader's desired drop in the fixing, the submissions of all three banks dropped, such that Yen Banks F and J were in the bottom quartile of the submitting banks while UBS was included in the fix calculation. Specifically, from late July through mid-August, UBS's submission fell 12 basis points, and Yen Banks F and J's submissions fell by 14 and 15 basis points, respectively.<sup>19</sup> In contrast, the largest change in any other submitting bank's submission during this time was a drop of eight basis points and the average change among the other thirteen banks was a decrease of about four basis points.

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<sup>19</sup> Again the Commission finds that other panel banks made submissions that were consistent with the Senior Yen Trader's requests. The Commission does so without addressing whether or not such banks made such submissions as a result of the Senior Yen Trader's requests:

***UBS Continued Manipulative Conduct Concerning Yen LIBOR and Euroyen TIBOR After the Senior Yen Trader Left UBS***

Traders on UBS's Yen Desk continued, at times, to attempt to manipulate Yen LIBOR and Euroyen TIBOR to benefit UBS's derivatives trading positions after the Senior Yen Trader left UBS in September 2009.<sup>20</sup> These traders utilized some of the same methods — internal requests, use of interdealer brokers and attempts to coordinate with other banks. At least one broker reached out shortly after the Senior Yen Trader's departure to assure a UBS Yen Derivatives Trader that he would continue to help UBS influence how the rates were submitted by other banks. For example, on September 10, 2009, UBS Yen Trader 2 reminded Derivatives Broker A1 that "Monday is the d-day" due to big fixes on swap transactions tied to three and six-month LIBOR, both of which he needed low. Derivatives Broker A1, who by then was deeply experienced with the manipulative scheme, assured the Yen Trader 2 that they could influence the three-month fix, and that the broker stood ready to help:

"...you realise that you have the ability to influence the 3m fix, you are currently sitting at the upper end of the range. The 6m will have to come down to others as you are already v low...i'll remind you to chase your cash boys as well:-)"

UBS Yen Trader 2 also reached out for help to Derivatives Broker B1, who similarly reassured him that he regularly spoke to at least seven other panel bank submitters and he would try to help Yen Trader 2, if he needed the help.

The UBS Yen Derivatives Traders, on their own and at the direction of the Yen Desk Manager, also on occasion continued to try to manipulate the Yen LIBOR and Euroyen TIBOR through UBS's submissions in order to manage the Senior Yen Trader's positions and minimize UBS's losses as it attempted to trade out of those positions he left behind, or to benefit their own derivatives trading positions. For example:

February 19, 2010:

Yen Trader 3: "need it to not go up in jpy basically unchanged for our libor suggestions pls"

Yen Trader-Submitter 1: "yes especially 6m agreed"

March 23, 2010:

Yen Trader-Submitter 1: "[Yen Trader 2] doesnt really want us to move 6s lib lower as other market players might figure out our posi when we are too extreme. for the mom he suggested to leave it unch. last time i lowered it was when we discussed it a few weeks back. since then always unch fyi"

Yen Trader 3: "ok unch is a good idea"

<sup>20</sup> Prior to the Senior Yen Trader's departure, as he was trying to renegotiate his compensation, at least one UBS manager elevated concerns about the "embarrassing" practices of the Senior Yen Trader to higher level managers. Despite such concerns being elevated, those at UBS who had been unaware of the misconduct made no meaningful efforts to determine whether the Senior Yen Trader had engaged in inappropriate or unlawful behavior.



**e. UBS's Attempts to Manipulate Other LIBOR Currencies and Euribor**

Numerous UBS derivatives traders attempted to manipulate the official fixings of LIBORs for currencies other than Yen, including Swiss Franc, Sterling and Euro, and other benchmark interest rates, including Euribor, to benefit their derivatives trading positions.<sup>21</sup> Moreover, the Trader-Submitters for certain benchmark interest rates regularly made submissions to benefit their trading positions. With respect to at least some currencies during certain periods, this occurred on a daily basis.

*Swiss Franc LIBOR*

From at least January 2005 through at least September 2009, on a regular basis, UBS's Swiss Franc Trader-Submitters adjusted UBS's Swiss Franc LIBOR submissions to benefit UBS's trading positions. The Swiss Franc Trader-Submitters' standard practice was to round their Swiss Franc LIBOR submissions by a quarter or a half of a basis point to benefit UBS's net Swiss Franc LIBOR position based on STIR's Swiss Franc trading book and other Swiss Franc LIBOR-related positions that were reported to them. This was known on the desk as the "fixing interest."

The Swiss Franc LIBOR Trader-Submitters also accommodated the requests of other Swiss Franc Derivatives Traders. For example, on July 5, 2006, a Swiss Franc Derivatives Trader told a Swiss Franc Trader-Submitter that he was on the receiving end of a large fixing tied to one-month Swiss Franc LIBOR at the end of July, and, therefore, he wanted a high one-month fixing. The Trader-Submitter agreed to make his submission high, stating that it would not be a problem. Such requests were either in written, in chats, or oral.

*Sterling LIBOR*

From at least November 2007 through at least September 2009, UBS Sterling Derivatives Traders responsible for Sterling LIBOR submissions received at least ninety requests from Derivatives Traders to adjust UBS's Sterling LIBOR submissions in a manner that would benefit their derivatives trading positions. The focus of requests, as with other currencies, was greatest when the Derivatives Traders had significant fixings on their swaps positions. UBS's Sterling Trader-Submitters regularly acknowledged and followed these requests. On occasion, the Trader-Submitters contacted the Derivatives Traders before making submissions to determine if the Derivatives Traders had any preferences as to the rates UBS would submit for Sterling LIBOR. In addition, the Sterling Trader-Submitters at times would consider the STIR desk's own derivatives trading positions, and adjust the Sterling LIBOR submissions to benefit those trading positions. For example, in February, 2008, a Sterling Trader-Submitter and a manager had the following communications:

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<sup>21</sup> Through its internal investigation, UBS identified evidence of similar misconduct involving submissions for at least the Hong Kong Interbank Offered Rate ("HIBOR"), the Singapore Interbank Offered Rate ("SIBOR"), the Singapore Swap Offer Rate ("SOR") and the Australian Bank Bill Swap Rate ("BBSW").

February 27, 2008: (Emphasis added.)

Sterling Trader-Submitter 1: “do u guys have any axe?”

Rates Manager A: “let me check as high as possible pls sir”

Sterling Trader-Submitter 1: “ok i go 70... u shd let me know ur [daily] axes for fixings mate”

Rates Manager A: “will do on days we have big fixings”

February 28, 2008:

Rates Manager A: “hey mate we want a really low fixing tomorrow in 3m”

Sterling Trader-Submitter 1: “i have no axe mate so that fine...”

Rates Manager A: “...try and get the fixing lower have a £100k fixing tomorrow”

Sterling Trader-Submitter 1: “wow ok k”

Commencing in or around the summer of 2008 and continuing until September 2009, a member of UBS’s STIR management also sought to ensure that derivatives trading positions were consistently being taken into account. Senior STIR Manager A instructed the Trader-Submitters who were based in Zurich to consult each morning with the UBS Sterling Derivatives Traders in London to determine their net risk with respect to the derivatives trading positions and to adjust UBS’s Sterling LIBOR submissions accordingly to benefit those positions. The Trader-Submitters complied with the instruction and at that point adjusted their Sterling LIBOR submissions each day based on information obtained daily from the London-based traders about their net positions tied to Sterling. For example, on March 16, 2009, a Sterling Trader-Submitter and a Derivatives Trader had the following communication:

Sterling Trader 1: “ive got a big 6m fix rec 110k gbp of the fix so a nice high one will be nice”

Sterling Trader-Submitter 2: “so very high 6m”

Sterling Trader 1: “yes pls!”

Sterling Trader-Submitter 2: “ok”

#### *Euro LIBOR and Euribor*

Over an approximately four-year period, from at least September 2005 through at least October 2009, UBS’s Euro LIBOR and Euribor submissions were based, at times, in whole or in part, on UBS’s Euro-based derivatives positions.

UBS Euro Trader-Submitters considered UBS’s net Euro positions on the Rates desk that were valued or priced off of Euro LIBOR or Euribor. To determine the rates to submit that would be beneficial to UBS’s trading positions, the Trader-Submitters reviewed UBS’s derivatives transactions and consulted with and obtained information from other UBS Euro Derivatives Traders. Based on that information, UBS’s Euro Trader-Submitters adjusted UBS’s Euro LIBOR and Euribor submissions to benefit the derivatives trading positions. This occurred on a regular, if not daily, basis.